

# The 10 Biggest Insurance Mistakes Americans Make

Insurance is the last thing most people want to think about. Your eyes are probably already glazed over just from reading this title. Who in their right mind wants to mull over their finances, sift through unfamiliar jargon, and face piles of insurance-related paperwork? This general disdain for everything insurance-related causes many Americans to fall into some common traps — traps that can be avoided if you know to look out for them. Read on, and you'll be prepared for worst-case scenarios and intimidating insurance salesmen.

## 1. Getting the most basic coverage

Whether it's car insurance or life insurance, you're going to want to cover more than just the basics. Many people get a low level of coverage on their autos because it is all that is required by their state. While you may be driving legally with the basic insurance, you are barely covered. Liability limits are likely lower, which means that you may have to come up with a large chunk of change if you damage someone else's property. You also might be without medical coverage or uninsured motorist coverage. In terms of life insurance, many people just buy enough to cover bills and funeral costs if they die, but they don't consider the financial impact their death would have on the family's income. You want to make sure your loved ones can survive for several years if they lose your salary.

## 2. Not shopping around

No one wants to spend a lot of time thinking about insurance. It's boring and complicated and forces you to think about the worst-case scenario. So you might be tempted to just find a policy, buy it, and be done with the whole ordeal. Doing this, though, could cost you thousands of dollars because insurance rates definitely vary. One company might quote you \$1,500, while another will come in at \$3,500. Which would you want to pay? With easy comparison websites, shopping around won't take too long, and you'll be glad in the end that you checked out all your options.

## 3. Buying unnecessary policies

If you're especially paranoid or you just get a really persistent, doomsday insurance agent, you might find yourself wanting to buy every type of insurance out there. Better safe than sorry, right? Maybe not in

this case. You could be sorry when you find out that the return on the policy isn't really worth the money you're putting into it. Taking out life insurance on a child, for example, isn't needed because the death of a child won't eliminate a source of income for your family. Other types of insurance might apply to events that are already adequately covered by other policies or organizations, such as rental car insurance, something that's often taken care of by your regular insurance, and credit card loss insurance, which is unnecessary because banks limit your liability on stolen cards.

#### 4. Underinsuring their homes

As many as 2/3 of American homes are underinsured, meaning that the owners can lose lots of money if their homes are ever damaged or destroyed. What you'll want to consider when insuring your home is what it would cost to reconstruct it. These reconstruction costs are different than market value, which is the amount many people assume they should insure their house for. Reconstruction costs could be much higher than the market value of your home because there's significant inflation on building materials. Reconstruction contractors may cost more, and demolition and debris removal can add to the price tag. Keep all of these things in mind when buying your home insurance policy so you don't end up footing a much bigger bill than you can handle.

#### 5. Leaving out non-monetary "income"

Many people calculate how much life insurance they need by following an old and maybe outdated guideline: take your annual income and multiply it by seven. In theory, this would allow your family to live on for seven years without changing their financial situation. But this equation discounts the value that your non-monetary contributions hold in your life. For instance, if your family's health insurance is through your company, and you die, your spouse is left to purchase his or her own health insurance, which will be an added cost. Even spouses who don't work have hidden assets that you may forget to consider. A stay-at-home mom is eliminating the cost of putting a child in daycare, an expense that should be calculated into her life insurance policy.

#### 6. Forgetting to update coverage

When you have a major life change, say buying a new house or having a baby, a lot of important things probably get pushed out of your brain. Don't let insurance coverage be one of them. When there's a new addition to the family, or any reason to expand or change coverage, make sure you do it. You wouldn't want something to happen and then remember you hadn't gotten around to talking to your agent. Even if you're not changing your policy, you've got to keep your information up-to-date. If you forget to provide your new address or credit card number you could end up being late on your payments and getting your policy canceled.

#### 7. Not knowing their policy

According to a survey by the National Association of Insurance Commissioners, 60% of participants couldn't answer basic questions about what their home insurance covered. This is seriously bad news if something were to happen to their homes. The same is true when you don't understand the extent of any of your policies. If you find out after a mishap that your insurance won't cover the damage, you'll be out some serious money because it's too late to change your policy. On the flip side, if you don't think your coverage extends to your problem and you don't check, you may be missing out on a benefit you're already paying for.

#### 8. Foregoing disability insurance

One in three Americans between 35 and 65 will be disabled for more than 90 days at some point in their careers, according to the American Council of Life Insurers. Would you be able to survive without your income for three months or more? That's a question you should seriously consider before deciding against disability insurance, which will replace a portion of your income while you can't go to work. If you have an accident or get a serious illness, even if it doesn't leave you permanently disabled, you could be in real financial trouble.

#### 9. Providing inaccurate information

You know when you're shopping for insurance that a bad driving record will probably raise your car insurance rates. And a terminal illness will make getting life insurance next to impossible. This makes many people want to fudge the truth a little bit to get a better deal. Some people lie about speeding tickets or accidents they've had for auto insurance. Others lie about smoking, income, or family history of cancer to qualify for better life insurance. Some lies are easy to uncover. For example, traffic violations appear on your motor vehicle record. Others may not be discovered until after death, but can void your insurance plan. Everything will work out better and go more smoothly if you just 'fess up on your application.

#### 10. Dropping insurance to save money

It's no secret that times are tough economically and people across the country are looking for ways to tighten their budgets. Insurance, especially life and home policies, often seems like an unnecessary monthly expense and many Americans opt to cut the cost. Bad idea. Sure, you never think something bad is going to happen, but Murphy's Law says that something awful will happen as soon as you drop your insurance. You could be paying to rebuild your house, which often costs more than building a new one, or leaving your family without enough to live on. If you're really hurting financially, search for a more affordable policy or amend your coverage.